



**CITY OF HAYWARD**  
**AGENDA REPORT**

AGENDA DATE 06/03/03

AGENDA ITEM 4

WORK SESSION ITEM \_\_\_\_\_

**TO:** Mayor and City Council

**FROM:** City Manager

**SUBJECT:** Operating Budget for the City of Hayward and Redevelopment Agency for Fiscal Year 2003-04, the 2003-04 Master Fee Schedule, and the 2003-04 Gann Appropriation Limit, and the 2003-04 Capital Improvement Program Budget

**RECOMMENDATION:**

It is recommended that, following public testimony, the City Council direct staff to prepare the necessary resolutions to implement Council budget decisions for consideration and action on June 17, 2003.

**BACKGROUND:**

In spite of declining revenues due to the lingering effects of the downturn in the economy, the Recommended Budget for 2003-04 maximizes anticipated resources to continue to deliver City services to Hayward residents. For 2003-2004, the budget represents expenditures of \$161.3 million for all City funds. Of this total, \$95.5 million is in the General Fund, and \$45.3 million is in the Enterprise Funds, with the balance distributed between the City's Special Revenue, Debt Service and Internal Service funds.

The budget, which includes the Redevelopment Agency, was provided to the City Council in early May and has been available for public review since that time. By way of providing a summary of the overall direction of the recommended budget, the budget message presented to you in the budget document is attached for reference (Attachment A).

The Council held work sessions to review and discuss the operating budget. As a result of comments voiced at the work session, certain editorial revisions will be made to the budget document for clarity. In addition, new objectives were identified, and these are noted in Attachment C. They will be incorporated into the document when printed in final form.

In addition to the Operating Budget, Council has reviewed the Five Year Capital Improvement Program (CIP) Budget. As previously noted, the Planning Commission has also reviewed the CIP and confirmed that it is consistent with the general plan.

## **Master Fee Schedule for 2003-04**

At its May 27 work session, Council had no questions with respect to the Master Fee Schedule for 2003-04. For reference, the agenda report presented at the work session appears as Attachment D. Any changes that Council may wish to make as a result of the public hearing will be incorporated into the Master Fee Schedule and reflected in the June 17 agenda report.

## **Utility Rate Changes**

Also at the May 27 work session, Council reviewed proposed changes to water service charges. The typical single-family customer would experience a 9.9% increase over the current average bi-monthly water billing. Proposed changes to water facilities (connection) fees are also recommended. As shown in Attachment F, the cost would increase 30 percent over a two-year period. These increases in fees are primarily due to facility upgrades identified in the Master Plan.

In addition, Council reviewed proposed changes to sewer service charges. The increases represent adjustments for inflation and needed infrastructure changes. For single-family homes, an 11.9 percent increase is proposed. Finally, Council reviewed proposed changes to sewer capacity fees. As shown in the Attachment G, the cost would increase 30 percent over a two-year period. The increases in fees are due primarily to facility upgrades.

The new fees are proposed to take effect October 1, 2003. Despite the proposed increases in water and sewer charges, Hayward's rates would continue to be competitive and at about the mid-point when compared to nearby agencies.

## **Alternate Rate Structure**

During the Council's discussion of increases in water rates, Council member Hilson suggested consideration of an alternative rate structure. Rather than the three-tier structure presented by staff, a modified two-tier structure was proposed in its place. For comparison, what follows is the current structure and rates, along with the staff recommendation and the alternative mentioned at the work session.

<b>Existing Rates</b>		<b>Staff Recommendation</b>		<b>Alternative Proposal</b>	
0 to 20 Units	\$ 1.82	0 to 10 Units	\$ 1.95	0 to 25 Units	\$ 1.95
> than 20 Units	\$ 2.12	11 to 30 Units	\$ 2.12	> than 25 Units	\$ 2.45
		> than 30 Units	\$ 2.45		

In developing the three-tier structure, two major considerations were taken into account: First, that water conservation be maximized and its waste minimized; and second, that there be sufficient revenue to fund upcoming improvements while maintaining adequate reserves to address long term needs of the system.

In evaluating the alternative, we offer the following observations. One, staff is concerned that by increasing the first tier (from 20 to 25 units), it may encourage customers to consume more –

rather than less – water, thereby undermining the goal of conserving this valuable resource. Two, from the standpoint of overall revenue, the alternate rate structure is projected to generate about \$500,000 less income than the staff recommendation, resulting in a corresponding decline in fund balance. Moreover, subsequent to your work session, staff confirmed that the San Francisco Public Utilities Commission voted to increase wholesale rates by 25.7%.

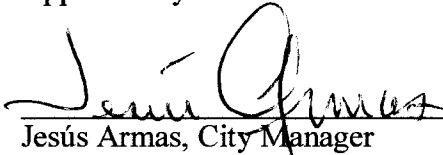
For all of the above reasons, staff continues to recommend approval of the rate structure presented to you during the work session, and reflected in Attachment F to this report.

### **Public Hearing and Adoption of Budget**

The purpose of the June 3 public hearing to provide an opportunity for the Council to receive testimony from the public on the Recommended Budget and the 2003-04 Gann Appropriation Limit (Attachment E). As the Council will recall, the Gann Limit, or State Proposition 4 approved by California voters in November 1979, places limits on the amount of revenue that can be spent by government agencies. The limit is based on actual appropriations during the 1978-79 fiscal year (the “base” year) and is increased each year using population and inflation growth factors. The City’s recommended annual budget has been far below the limit each year, which is the case again for 2003-04.

Following public testimony the Council is requested to provide direction to staff so that the necessary implementing budget resolutions can be prepared and presented for formal action on June 17, 2003.

Approved by:

  
Jesús Armas, City Manager

Attachments:

- A – Budget Message
- B – CIP Message and Working Assumptions
- C – Modifications to Budget Narrative
- D – Master Fee Schedule
- E – Gann Limit Information
- F – Proposed Water Rates
- G – Proposed Sewer Rates



May 9, 2003

Honorable Mayor and City Council:

Earlier this year, staff submitted a mid-year budget review to Council. The report addressed the City's financial condition with respect to the current year and also provided Council with financial projections for 2003-04 and 2004-05. Unfortunately, the projections indicated a growing deficit for the City's General Fund over the next two years. The slowing economy, at that time a potential war in Iraq, and the State budget crisis all had negative impacts on the City's finances. In response to the emerging imbalance in the City's General Fund budget and the uncertainties noted above I recommend to Council an approach that would respond to the current year's projected revenue shortfall and position the City to address the upcoming budget cycle.

With respect to 2002-03, I recommended, a series of "belt tightening" steps involving both employee services and non-employee services expenditures. More specifically, unfilled employee positions would be held open unless there was an overriding reason to fill them. Secondly, non-employee services budgets were subjected to an overall 3% reduction. With these cost containment steps in place and no further erosions in revenue I believe we will achieve a "breakeven" position in the General Fund for this year. Unfortunately, these measures will not be sufficient to balance the projected budget shortfall for 2003-04.

Concerning the 2003-05 budget cycle I made several recommendations that are embodied in this recommended budget. First, the recommended budget covers only one year. Attempting to develop a detailed two-year budget with so many uncertainties in play is problematic at best and may become counterproductive. However, should conditions stabilize I would suggest that the City return to a two year budget for the 2005-07 time period. I would also like to emphasize that reverting to a one-year budget does not mean that future financial planning is limited to one year.

Second, I recommended that the City use 2003-04 as a transition year to begin the process of aligning on-going expenditures with on-going revenues. By transition year I meant two things: first, that the cost containment measures discussed earlier continue and second that the City use the 2003-04 year to carefully plan and develop cost containment measures to balance the General Fund budget on a long-

term basis. Absent growth in the revenues received by the City, it is very likely that further service reductions will have to be made for future periods. I anticipate that these reductions will be significant and sufficient time to plan and communicate them is key to a successful implementation.

Third, I proposed an approach to 2003-04 that would use cost savings measures and a portion of the City's reserves to balance the budget. At the time of the mid-year budget review I suggested that the PERS reserve of \$1 million, approximately \$5.6 million of contingency reserves and salary costs savings of approximately \$2 million would be needed to balance the budget. Again, the primary benefit of this approach is that public services are not abruptly curtailed and sufficient time for planning, review and discussion by Council of any proposed changes is provided.

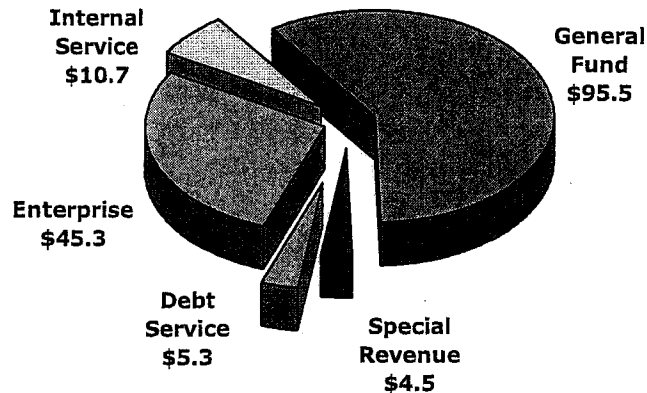
Such was the state of affairs at the City's mid-year budget review. Since then much has changed and in certain key areas little has changed. First and foremost the State budget crisis continues, while the economy remains sluggish. Because of these factors, there is continued downward pressure on the City's revenue base.

In keeping with the approach discussed with the Council, this budget relies on salary savings from certain vacant positions. It goes one step further, however, by recommending that 19 (General Fund 18, Hayward Redevelopment Agency 1) positions be "frozen", which means that funding is not provided for the frozen positions. The frozen positions along with salary savings that have occurred historically due to vacancies and retirements are estimated at \$2 million. However, the recommended budget only reflects the savings attributable to the frozen positions, which is approximately \$1.1 million. Recognizing only frozen position savings partially accounts for the projected budget shortfall of \$7.5 million as opposed to the \$6.5 million (after salary savings) as noted at the mid-year budget review. In addition, non-employee services budgets have been examined in the preparation of this budget and additional cost savings, albeit modest, have been affected.

#### **BUDGET OVERVIEW—2003-04**

The recommended 2003-04 operating budget is a balanced spending plan totaling \$161.3 million for all funds. Of this amount, \$95.5 million is for the General Fund, \$45.3 million is for Enterprise Funds, \$10.7 million is for Internal Service Funds, \$4.5 million is for Special Revenue Funds, and \$5.3 million is for Debt Service Funds. The following chart illustrates the composition of the City's operating budget by fund type.

**City of Hayward Operating Budget—All Funds  
(\$ In Millions)**



This message focuses primarily on the General Fund, as this is where most City's services are budgeted. By way of summary, the following table provides an overview of the total General Fund revenues and expenditures as recommended for 2003-04.

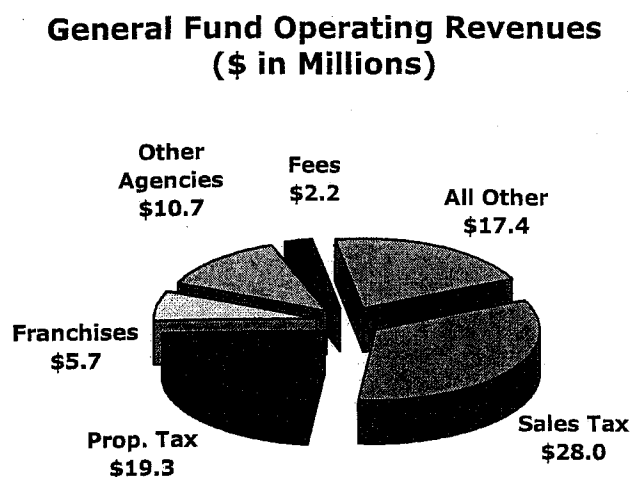
**2003-04  
General Fund  
Revenues and Expenditures  
(\$000's)**

	<u><b>Amount</b></u>
Revenues	\$ 83,345
Expenditures	90,027
Transfers In	4,592
Transfers Out	5,444
Excess of Revenues (Expenditures)	<u>(7,534)</u>
PERS Reserve and Contingency Reserves	<u>7,534</u>
Subtotal	-
Beginning Fund Balance	<u>31,434</u>
Subtotal	31,434
Less Reserves Used	<u>(7,534)</u>
Ending Fund Balance	<u><u>\$ 23,900</u></u>

As can be seen from the schedule above, recurring General Fund expenditures are not in line with recurring revenues. Through the use of reserves, the budget is balanced for 2003-04. However, this is not a long-term solution. In order for the General Fund to be on a solid financial footing it will be necessary to bring expenditures in line with revenues.

### **Revenue Estimates – Sources of Funds**

General Fund revenues come from several sources, the most significant of which are Sales Tax and Property Tax. However, there are other important revenue sources for the General Fund, such as the Real Property Transfer Tax and the Motor Vehicle In-Lieu Tax. The chart below provides a quick overview of General Fund revenue sources.



**Sales Tax.** Sales tax revenue is estimated at about \$28 million for 2003-04. This represents a decrease of approximately \$3 million (9.8%) from the 2002-03 budget. As has been discussed earlier with Council, nearly 40% of the City sales tax revenue comes from the "business to business" category. That is businesses that sell primarily to other businesses, and the transaction is taxable. This category has declined significantly. Many economists have labeled this recession as a business led recession and Hayward's experience would tend to support that observation. If there were a recovery in business spending, then Hayward would expect to see this category improve.

**Property Tax.** This revenue source continues to reflect both an active real estate market in terms of the number of sales and a market where values outpace inflation. At mid-year, property tax revenue was adjusted upward from the 2002-03 adjusted budget by \$750,000. Revenue collections to date for this revenue source indicate that the revised amount will be achieved. Staff believes that property tax will continue to show strong growth through 2003-04 and has applied

a net growth factor of 4% to the revised 2002-03 estimated property tax amount. Staff believes that a net growth of 4% is middle of the road and the probability that 4% growth will be achieved is very high.

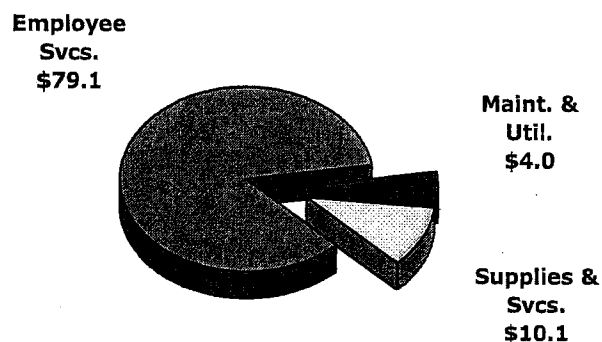
**Other Sources.** In general, other revenue sources are estimated to decline for 2003-04. Given the financial uncertainties discussed earlier, staff has been conservative in estimating the balance of revenues for the General Fund. One final note: The budget makes the assumption that the State will take no action that will place the Motor Vehicle In-Lieu at risk. While there is currently no legislation in process that would affect this critical revenue source, it is important to monitor the State's actions in this area. Based on the most recent information available from the State, the City could lose up to \$5 million in 2003-04 should the State not "backfill" VLF revues.

### **Expenditure Projections – Use of Funds**

Overall, expenditures are budgeted to increase for 2003-04. This increase is due, in large part, to increased costs in the Employee Services category for contractual obligations, medical insurance premiums and retirement costs. More specifically, contractual obligations account for approximately 50% of the increased cost, employee benefits about 15% and increased retirement costs, 35%. Other areas, such as Maintenance and Utilities and Supplies and Services have been reduced from the prior year's expenditure levels. Nonetheless, the requested expenditure budget provides for a service level that is not significantly less than that provided in 2002-03.

The largest expenditure category for the General Fund is, of course, Employee Services. Given the fact Hayward, much like every other branch of local government, is a service provider, this is no surprise. The pie chart that follows provides a quick overview of the relationship of the expenditure categories.

**General Fund Operating Expenditures  
(\$ in Millions)**





**Employee Related Costs.** Personnel salary and benefit expenses comprise approximately 85% of the City's General Fund operating costs. For 2003-04, all negotiated salary and benefit increases are factored into the expenditure assumptions.

**Non-Personnel Expenditures.** The other primary expenditure categories, Maintenance and Utilities and Supplies and Services and Capital have been decreased from 2002-03 expenditure levels to reflect the "belt tightening" policy that was discussed earlier. In general, each department has seen a 5% reduction in expenditure budgets. This reduction provides some level of savings and does not significantly impair the ability of the various departments to meet their overall service delivery objectives.

### **State Budget Actions**

Unfortunately, a disclaimer referencing the State's budget crises has become a required component of local government budgets. This has not changed for 2003-04. While much is not known, there are impacts. For example, the 2003-04 revenue budget reflects lowered grant revenue estimates. Also, the Hayward Redevelopment Agency has been affected with revenue shifts for ERAF of approximately \$100,000 for 2002-03, which will continue into 2003-04

### **Overall Service Level for 2003-04**

By necessity, this budget message must focus on reductions and the anticipated budget shortfall. However, taken in context of all of the services that the City is able to deliver the budget for 2003-04 is essentially unchanged from 2002-03. I believe that the Council and employees of the City can take pride in being able to maintain an excellent level of service during an economic downturn such as we are facing now. On the other hand, it means that we are unable to initiate or support any new, major initiatives beyond those previously noted or discussed with Council.

### **Service Impact of Frozen Positions**

As discussed earlier, I am recommending that certain employee positions be "frozen" for 2003-04. As the Council is well aware, frozen positions means, at some level, reduced services. This budget freezes approximately 18 positions or full time equivalents (FTE) in the General Fund and one position in the Redevelopment Agency. At the mid-year budget review Council indicated that it would like a report on the impact of any hiring slowdown. The following is a brief discussion of the service impact of the positions that have been frozen in the 2003-04 Operating Budget.

In general terms, the freezing of positions is manifested in the form of slower response times. In other cases, specific projects might be delayed or not done.

<b><u>Department</u></b>	<b><u>Service Impact</u></b>
<b>Mayor and Council</b>  Administrative Analyst II	General impact, work delay. All work has been reassigned to other staff. Key duties such as support for special events, cable broadcasts, resident inquiries and complaints receive priority.
<b>City Manager</b>  Secretary (Confidential)	General impact, work delay. All work has been reassigned to remaining support staff.
<b>Finance and Internal Services</b>  Administrative Intern Administrative Clerk II Senior Account Clerk	<p>General impact, work delay. The Administrative Intern position has not been filled for several years and will have no impact. The Administrative Clerk II position supports Finance Administration, Accounting, Budget, Building Management and Purchasing. All duties will be reassigned to Administrative Secretary.</p> <p>The Senior Account Clerk position will affect the Accounting Division and may impact the monthly and year-end reporting schedules. Some system enhancement projects may be delayed.</p>
<b>Police</b>  Senior Secretary Community Service Officer Animal Care Attendant Administrative Analyst II	General impact, work delay. Senior Secretary duties will be reassigned to other staff. CSO duties may require reassignment of other staff to avoid backlog. Existing staff will take on Animal Care Attendant duties. Existing staff will assume Administrative Analyst II duties.
<b>Public Works</b>	

<p>Associate Civil Engineer Tree Trimmer</p>	<p>General impact, work delay and reorganization of duties. Frozen Associate Civil Engineer will slow down delivery of projects. Public Works has four authorized Tree Trimmer positions. Three are assigned to bucket trucks and one to the "climbing crew" Major tree trimming work will continue. Delays in addressing smaller tree trimming projects likely to be experienced.</p>
<p><b>Library</b></p> <p>4 Library Pages (1.2 FTE) 2 Senior Library Pages (1.2 FTE) 2 Youth Services Librarians I (1 FTE) 2 Library Assistants (1 FTE)</p>	<p>General impact, work delay and reduction of services. Service hours will be maintained, however, less emphasis will be placed on community outreach, library facility, collection development, cataloging and shelving materials.</p>
<p><b>Community and Economic Development (CED)</b></p> <p>Redevelopment Project Manager Economic Development Specialist Senior Planner Building Inspector Administrative Intern</p>	<p>General impact, work delay and delay/deletion of projects. Freezing the Redevelopment Project Manager position results in reduction in ability to undertake new projects. Freezing Economic Development Specialist, adversely effects business retention visits and reduces ability to conduct research projects on economic development issues. Senior Planner, position will result in an increase in response times in processing applications. Building Inspector, reduction in number of daily inspections conducted. Administrative Intern, reduction in basic data collection and research functions.</p>

## **CLOSING REMARKS**

Over the past few years the Council has been fiscally responsible in allocating resources to address the needs of the community. This approach has allowed the City to rebuild reserves to be used for the "rainy day" which always comes. That day is upon us now. By using the City's reserves to "transition" from current budget levels to a new budget equilibrium, any changes in service delivery can be cushioned and more accurately identified. Clearly, balancing the budget is a major objective for the upcoming year. However, other City activity does not stop because of funding issues and many important Council initiatives will continue to be priorities. As is often the case, whether in good times or bad, striking a balance among competing priorities is the challenge.

I believe that this budget achieves the objectives that Council outlined at the mid-year budget review. In particular, it recognizes in a responsible way the economic uncertainties that the City faces and, it outlines an approach to deal with a projected growing budget shortfall that is flexible and graduated. Finally, the budget is balanced without having to use all of the funds set aside by Council for contingencies.

We all look forward to working with Council to implement the many important projects contained in the budget and to continue to provide excellent service to Hayward residents.

I would be remiss if I did not acknowledge and thank all of the individuals who are instrumental in developing and producing this budget. The City of Hayward is fortunate to have a competent and dedicated staff and I extend my sincere thanks to those responsible for their efforts toward the completion of this budget.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Jesús Armas', written in a cursive style.

Jesús Armas  
City Manager



CITY OF  
**HAYWARD**  
HEART OF THE BAY

May 1, 2003

*Honorable Mayor and City Council:*

*This letter serves to transmit the Five-Year Capital Improvement Program (CIP) for your consideration. The City Council will review this document during a work session in late May 2003. Beforehand, both the Planning Commission and Council CIP Committee will have reviewed the document and developed their comments for your consideration.*

*As in previous years, an overview of program changes can be gained by scanning the project changes and modifications section beginning on page 9. For a more detailed review, including project justifications, please refer to the project description and expenditures forms. While the layout of the budget document remains basically the same, it should be noted that this year a new fund, Regional Water Intertie - Capital, Fund 627, is included in the CIP to segregate revenues and expenditures for the recently approved Regional Water Intertie Project.*

*In accordance with previous direction, we had originally anticipated developing the 2003/04-2007/08 Capital Improvement Program as the first year of a two-year budget. However, given current economic conditions and its related uncertainty, this year's CIP is presented as a one-year budget. This is intended to allow Council the greatest flexibility in responding to future changes in the City's revenues and financial needs. The importance of this flexibility becomes especially apparent when considering capital projects that require the expenditure of unrestricted monies. Since the major source of unrestricted monies is the City's general fund, the downturn in the economy has severely limited our ability to transfer monies to the CIP, and therefore very few new projects have been added that require unrestricted dollars. The economy has also affected this year's CIP through the State's discontinuance of the Governor's Traffic Congestion Relief Fund monies and through a reduction in the revenues realized from Measure B. Despite the difficulties generated by a less than satisfactory economy, projects that were previously included in the Capital Improvement Program remain funded, and general fund transfers to support transportation projects and new and replacement streetlights are still part of the 2003/04-2007/08 program.*

*The five-year program also remains aligned with Council's commitment to a revised and expanded sidewalk rehabilitation program. Using previously allocated funds, as well as \$5 million of the LAVWMA funds, plus interest and resident participation, more than \$5.8 million will be expended for sidewalk rehabilitation over the next five years. Additionally, over \$3.8 million will be expended on pedestrian and bicycle improvements, including the installation of new sidewalks near schools and other area heavily traveled by pedestrians, plus another \$600,000 is included for*

wheelchair ramps at various locations throughout the City. These and other expenditures designed to benefit and encourage pedestrian and other non-vehicular activity in Hayward's neighborhoods are highlighted in the Livable Streets section of the CIP.

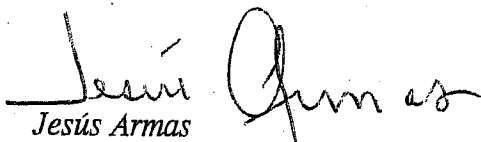
This year's capital program again makes improvements to the Hayward Executive Airport based on the Airport Master Plan. The five-year program includes over \$14.5 million in airport projects, and it assumes new and expanded projects will be partially funded through FAA grants and a \$2 million low interest loan from the State Airport Fund for new hangar development.

Council's previous direction regarding improvements to the City's public infrastructure continues to be addressed through increased funding for major sewer and water system projects identified in updates to the Sewer and Water System Master Plans, as well as in the Water and Sewer Seismic Study. In order to finance these necessary repairs and improvements, the budget assumes planned transfers from the sewer and water operating funds to the capital funds; increased sewer connection and water facilities fees, a \$27.5 million State Revolving Fund loan to the Sewer System; and \$13 million in additional borrowing for the Water System.

Sewer System projects total more than \$57 million over the five-year period, which includes approximately \$32 million during 2003-04 for the Water Pollution Control Facility Improvement - Phase I projects. Similarly, the Water System capital expenditures total approximately \$52 million with projects designed to improve water quality, provide flexibility to meet emergency needs, and to allow the City to be better prepared for a major earthquake. Also included in the \$52 million total is over \$16 million, funded by contributions from SFPUC and EBMUD, for the Regional Water Intertie Project that will interconnect the water systems of EBMUD and SFPUC for use in both emergencies and major planned outages.

Finally, attached to this letter is a summary of the key assumptions (Attachment A) that were used in preparing the Five-Year CIP. The staff and I look forward to discussing projects and issues embodied in this capital plan.

Respectfully submitted,

  
Jesús Armas  
City Manager

Attachment A - Assumptions

## ATTACHMENT A

### 2003-2004 Five-Year Capital Improvement Program Working Assumptions

1. *Interest Rates:*                *Rate of return on existing fund balances - 2% per year.  
Projected interest rate on City borrowing, based on current market  
information - 5.5% per year.*
2. *Construction Inflation Rate: 3% per year.*
3. *Monies received from Gas Tax have been escalated at about one percent per year through 2007-08, and transfers to the General Fund from the Gas Tax Fund to support eligible expenditures have been projected to increase at one percent per year.*
4. *Revenues received from Proposition 111 (Gas Tax) have also been escalated at one percent per year through 2007-08.*
5. *Transfers of Gas Tax Fund monies to the General Fund are assumed in the amount of \$1,251,000 in 2003-04, increasing to \$1,303,000 in 2007-08.*
6. *Funds received under the Governor's Traffic Congestion Relief Program are shown as discontinued as of 2003-04 and are assumed not to resume during the five-year period. This represents a loss of approximately \$280,000 per year.*
7. *Anticipated revenue from the Measure B program, based on projections provided by the Alameda County Transportation Authority, is assumed to be \$1,489,000 in 2003-04, increasing at an estimated 3% per year to \$1,676,000 in 2007-08.*
8. *Monies received from the Measure B Non-Motorized Fund for pedestrian and bicycle improvements are assumed to be \$319,000 in 2003-04, and are estimated to increase at 3% per year to \$359,000 in 2007-08.*
9. *A General Fund transfer to the Capital Improvement Fund of \$300,000 is assumed in 2003-04.*
10. *Transfers of \$240,000 per year from the Route 238 Trust Fund to the Street System Improvements Fund in 2003-04 through 2007-08 are assumed to continue support for the New Sidewalk Program.*
11. *Continuation of the \$350,000 per year transfer from the General Fund to the Transportation System Improvement Fund in 2003-04 through 2007-08 is assumed, to provide funding for transportation projects.*

Assumptions 2003-2004 (continued)

12. *Although not shown as a specific project since PG&E will do the work, use of an estimated \$5,700,000 in Rule 20A monies allotted to the City will allow for completion of the undergrounding of utilities on Mission Boulevard from Sycamore Avenue to Arrowhead Way. Based on Rule 20A allocations to date, it is projected that this will use our allocation through the year 2004. Funding and timing for this project will be influenced by PG&E's financial situation.*
13. *An annual transfer of \$320,000 from the General Fund to the Street Lighting Fund, based on savings from the purchase of the streetlight system, is assumed to continue. The transfer will fund debt service through fiscal year 2008-09, and fund the continuing need to purchase new and replacement lights when required for safety and security.*
14. *Planned transfers from the sewer and water operating funds to the capital funds; increased sewer connection and water facilities fees; a \$27,500,000 State Revolving Fund Loan to the Sewer System; and \$13,000,000 in borrowing for the Water System allow critical capital projects identified in the Sewer and Water System Master Plan Updates, plus the Water and Sewer Seismic Study, to be accomplished.*
15. *Contributions totaling \$16,375,000 received from the SFPUC and EBMUD under a Joint Powers Agreement with the City are assumed in Fund 627 to allow construction of the Regional Water Intertie Project.*
16. *Funding for Airport Capital Improvement Projects identified in the Airport Master Plan is provided by increased transfers from the Airport Operations Fund and from a low interest State Airport Fund Loan of \$2,000,000.*
17. *The Program reflects expected cash flow in future program years and Council appropriations carried forward in the current year.*



## **MODIFICATIONS TO BUDGET NARRATIVE**

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### **NARRATIVE MODIFICATIONS**

#### Mayor and Council

Under 2001-03 Accomplishments, add the following:

- Provided policy direction concerning 880/92 Interchange Project, and approved alternate H.

Under 2003-04 Objectives, add the following:

- Provide policy direction for the Mt. Eden Annexation Study.
- Provide policy direction for the South Hayward BART Concept Study.
- Provide support for Youth in Government Day.

#### City Manager

Under 2003-04 Objectives, add the following:

- Schedule Council work session to discuss future use/direction of Centennial Hall.

#### Police Department

Under 2003-04 Objectives, add the following:

- Continue to focus on reducing gang activity.

#### Public Works (Administration)

Under 2003-04 Objectives, add the following:

- Present report to Council concerning use of and possible modifications to Lifeline Utility Rates.



**CITY OF HAYWARD**  
**AGENDA REPORT**

AGENDA DATE 05/27/03

AGENDA ITEM \_\_\_\_\_

WORK SESSION ITEM WS 2

**TO:** Mayor and City Council  
**FROM:** Acting Finance and Internal Services Director  
**SUBJECT:** Master Fee Schedule for 2003-2004

**RECOMMENDATION:**

It is recommended that the City Council review and comment on this report.

**DISCUSSION:**

Each year, staff reviews the Master Fee Schedule to ensure that the various fees and services charges are appropriate and within State Guidelines. A review was conducted for the fiscal year 2003-2004 and based on that process several changes are recommended for Council's consideration.

The recommendations contained in this document have been developed pursuant to applicable Government Codes, and the City's fee recovery policy. Changes to the Master Fee Schedule are explained in detail under departmental narratives, which follow. For ease of reference, all fee changes to the Master Fee Schedule are in table form. The summary table gives a brief fee description, current fee, proposed fee, cost recovery amount, and the average fees charges by other cities for a similar service.

The current fee represents the amount adopted by Council. The proposed fee is staff's recommendation. The cost recovery is the direct and indirect cost of the service. The other cities cost is an average by the City of Oakland, City of San Leandro and City of Berkeley charge for a similar service.

A complete copy of the current Master Fee Schedule is on file in the City Clerk's Office. The current Master Fee Schedule has all changes adopted by the Council during the current fiscal year, including cost of living adjustments to certain fees provided for by earlier Council action.

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## ALL CITY DEPARTMENTS

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Some very low-income customers are offered exemptions for certain services based on their income levels. Staff regularly updates the low-income schedule. The following proposed income levels update the Master Fee Schedule to the Federal 2003 very low-income limits.

Family Size	Current Income Levels Not to Exceed	Proposed Income Levels Not to Exceed
1 Member	\$22,150	\$28,050
2 Members	\$25,300	\$32,050
3 Members	\$28,500	\$36,050
4 Members	\$31,650	\$40,050
5 Members	\$34,200	\$43,250
6 Members	\$36,700	\$46,450
7 Members	\$39,250	\$49,650
8 Members	\$41,800	\$52,850

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## CED

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The tree preservation ordinance was amended recently to include permitting of tree pruning, and tree removal. Additionally, the tree preservation ordinance was amended to include a one-year tree pruning permit that is not site specific.

Fee Description	Current Fee	Proposed Fee	Cost Recovery	Oakland	San Leandro	Berkeley
One-year Tree Pruning	New	\$200.00	N/A	\$156	No Charge	No Charge
Tree Removal	Permit \$66.00 (All Tree Services)	Permit \$50.00 (Tree Removal Only)	\$50.00	Cost Range \$71-\$156	Permit Not Required	Tree Removal Not Permitted
Tree Pruning	New	Permit \$20.00	\$20.00	Cost Range \$71-\$156	Not Listed	Not Listed

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## FINANCE AND INTERNAL SERVICES

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There are three fees charged to assessment districts for administration services performed by the City. The Master Fee Schedule provides for an annual adjustment of those fees to reflect changes in the San Francisco Bay Area Consumer Price Index. The February 2003 change is 3.35 percent. The summary of proposed changes, which follows, indicates the recommended changes.

Fee Description	Current Fee	Proposed Fee	Cost Recovery	Other Agencies
Establishment Fee	\$2,610.00	\$2,697.00	Per Bond Terms	N/A
Administration Fee	\$2,484.00	\$2,567.00	Per Bond Terms	N/A
Bond Call Fee	\$ 254.00	\$ 263.00	Per Bond Terms	N/A

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## FIRE DEPARTMENT

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The following three Certified Unified Program Agency (CUPA) hazardous materials fees are State mandated fees collected by the City and remitted to the State Treasurer's Office. The state has increased its fees, which will be reflected in the fee schedule.

Fee Description	Current Fee	Proposed Fee	Cost Recovery	Oakland	San Leandro	Berkeley
Annual State Charge	\$10.00 Per Facility	\$17.50 Per Facility	State Charge	State Charge	State Charge	State Charge
Underground Storage Tank	\$8.00 Annual Fee Per Tank	\$10.00 Annual Fee Per Tank	State Charge	State Charge	State Charge	State Charge
Accidental Release Program	\$105.00 Annual Per Facility	\$200.00 Annual Per Facility	State Charge	State Charge	State Charge	State Charge

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## POLICE DEPARTMENT

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As part of the adoption process for dogs and cats, medical testing is done and a microchip is inserted for identification purposes. The proposed fees cover these costs.

Staff also proposes a fee change for the prisoner booking fee. This fee is to partially recover the cost of administrative processing and temporary housing of prisoners arrested by outside agencies. The City of Oakland charges \$85.00 per day and the City of Fremont charges \$140.00. The Cities of Berkeley and San Leandro do not charge a fee.

Fee Description	Current Fee	Proposed Fee	Cost Recovery	Other Agencies Average Cost
Medical Testing	New	\$10min/\$50max	\$10min/\$50max	Actual Costs
Microchip Insertion	New	\$10.00	\$10.00	Contract Costs
Prisoner Booking Fee	\$93.00	\$128.00	\$128.00	\$113.00

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## PUBLIC WORKS DEPARTMENT

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As required by the Master Fee Schedule various Airport fees are adjusted to market rate every 4 years. 2003-04 is the adjustment year based on this policy. During February 2003, staff conducted a market analysis, which included comparing Hayward's Airport rents with ten airports in and around the Bay Area.

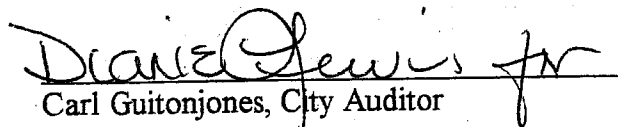
Based on this market analysis, staff proposes that the City's hanger rents be adjusted upward by five (5%) percent. For reference, the table on page 6 is a summary comparison of rental fees.

Rental Fee Description	Current Fee	Proposed Fee	Cost Recovery
	Hanger Space	Hanger Space	
Row A Hanger	\$186.00	\$195.00	Per Policy
T-Hanger	\$260.00	\$273.00	Per Policy
Large T-Hangers	\$382.00	\$401.00	Per Policy
Executive Hangers	\$811.00	\$851.00	Per Policy
	Storage Space	Storage Space	
Small	\$ 54.00	\$ 57.00	Per Policy
Medium	\$ 70.00	\$ 73.00	Per Policy
Large	\$133.00	\$140.00	Per Policy
Extra Large	\$170.00	\$178.00	Per Policy
	Tie Downs	Tie Downs	
Single Engine	\$ 55.00	\$ 58.00	Per Policy
Twin Engine	\$ 70.00	\$ 73.00	Per Policy
Aircrafts 12,501-25,000 Pounds	\$100.00	\$105.00	Per Policy
Aircrafts 25,501-75,000 Pounds	\$150.00	\$157.00	Per Policy
Excess of 75,000 Pounds	\$200.00	\$210.00	Per Policy
	Transient Overnight Tie Downs	Transient Overnight Tie Downs	
Single Engine	\$ 5.00	No Change	Per Policy
Twin Engine	\$ 7.00	No Change	Per Policy
Aircrafts 12,501-25,000 Pounds	\$ 10.00	No Change	Per Policy
Aircrafts 25,501-75,000 Pounds	\$ 23.00	No Change	Per Policy
Excess of 75,000 Pounds	\$ 29.00	No Change	Per Policy
Lighter-than Air Airship	\$ 20.00	No Change	Per Policy

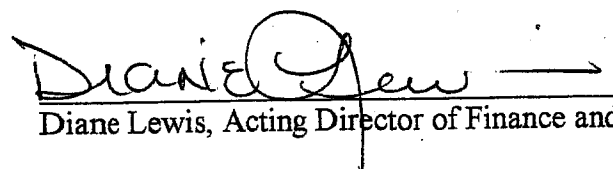
The data is listed in descending order of cost per square foot.

Airport	Rent/Month	Square Feet	Rent/ Square Foot
San Carlos San Mateo County	\$460.00	1,108	\$0.415
Haft Moon Bay San Mateo County	\$393.00	1,008	\$0.390
Reid-Hillview Santa Clara County	\$411.00	1,073	\$0.383
Buchanan Field Contra Costa County	\$345.00	940	\$0.367
Port of Oakland	\$352.00	1,040	\$0.338
Santa Rosa (Sonoma County)	\$348.00	1,037	\$0.336
City of Petaluma	\$274.00	1,000	\$0.274
City of Hayward	\$260.00	1,000	\$0.260
City of Livermore	\$236.00	960	\$0.246
Stockton	\$231.00	1,000	\$0.231
Napa County	\$229.00	1,048	\$0.219
Average	\$321.00	1,019	\$0.315

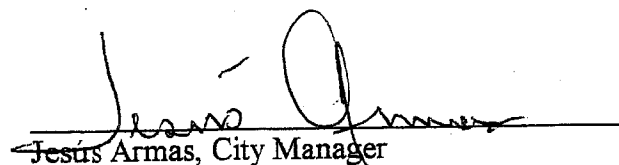
Prepared by:

  
Carl Guiton Jones, City Auditor

Recommended by:

  
Diane Lewis, Acting Director of Finance and Internal Services

Approved by:

  
Jesus Armas, City Manager

**CITY OF HAYWARD  
2003-04 GANN APPROPRIATION LIMIT**

As the result of calculations performed based on applicable state law and the recommended 2003-04 operating and capital budgets for the City of Hayward, the City's 2003-04 Gann Appropriation Limit is

**\$162,061,466**

The appropriations subject to the Gann Limit total

**\$61,761,802**

For 2003-04, the City of Hayward is thus under the Gann Appropriation Limit by

**\$100,299,664**

The material documenting the manner in which the Appropriation Limit was calculated is available from the Director of Finance and Internal Services.





**CITY OF HAYWARD  
DEPARTMENT OF PUBLIC WORKS  
May 7, 2003**

**TO: CITY MANAGER**

**FROM: DIRECTOR OF PUBLIC WORKS** *ASB*

**SUBJECT: PROPOSED 2003-04 WATER RATES AND FEES**

**BACKGROUND:**

The water usage charge (water rate) pays for water system costs that vary with consumption. Water rates are affected by the San Francisco Public Utilities Commission's (SFPUC) wholesale water price, consumption trends, and the City's need to maintain an adequate working capital balance in the Water Operating Fund. The City implemented an increasing rate block structure several years ago to encourage water conservation. In an increasing rate structure, customers pay a higher rate if they use more water. Currently, the lower block rate (1-20 units) is \$1.82 and the higher block (over 20 units) is \$2.12 per 100 cubic feet (CCF) of water, which is equivalent to 748 gallons.

Water facilities fees, also referred to as connection fees, are one-time fees paid by those wishing to connect a new facility to the public water system. The purpose of the connection fee is to: 1) defray the expenses paid for by the current customers over the years for development and improvement of the system to date, which makes it possible for new development to connect to the existing system; and 2) pay for the incremental cost of the future expansions and improvements that may be necessary to accommodate new development and future growth. Facilities fees ensure that adequate funding is available for necessary improvements without shifting the burden of paying for system expansion to existing rate payers and without the risk that system improvements will fall short of the needs to accommodate future growth. The fee is typically charged at the time that water connections are approved for new residential, commercial and industrial developments. The current water facilities fee is \$3,342 per dwelling unit.

**DISCUSSION:**

Water Usage Charge

Water rates were last increased in 2001-02 to cover normal inflationary cost increases and a relatively small wholesale rate increase. Rates were not increased in 2002-03. However, based on the most recent information from SFPUC staff, it is expected that the wholesale unit price, along with monthly service charges, will rise by 25.7% on July 1, 2003, and the Water Operating Fund cannot sustain an adequate fund balance without a rate adjustment for Hayward customers in 2003-04. While it is too soon to know for certain what the percentage increase in wholesale rates will be in 2004, an increase of 16% on July 1, 2004 is currently projected. At this time, staff does not anticipate recommending an increase Hayward rates in 2004-05, but the anticipated wholesale rate increase is assumed for the purposes of projecting Water Operating Fund balances.

While it has always been important that the Water Operating Fund maintain an adequate working capital balance to cover unforeseen emergencies and cash flow needs, certain infrastructure requirements make it critical that this balance not be allowed to substantially decrease. The City's water distribution system and the Hetch Hetchy water system are aging, and therefore attention must be given to upgrading, replacing, and maintaining facilities. Locally, sufficient funds are needed to continue installing water main and hydrant replacements, maintain reservoirs and pump stations, and modify the water distribution system as needed to convert from chlorine to chloramine as a disinfectant. Staff is proposing to continue a transfer of \$2,000,000 to the Water System Replacement Fund for needed projects.

With respect to the Hetch Hetchy system, it is critically important to not only maintain this system to provide adequate water delivery in normal circumstances, but to also ensure its structural integrity and redundancy in a catastrophic event, such as an earthquake. The current estimated total cost to upgrade the system is about \$3 billion. All suburban purchasers of Hetch Hetchy water, as well as San Francisco customers, will need to share in the costs of these improvements because all will directly benefit. Hayward's share of these costs, based on the percentage of system usage, is expected to be in the range of \$200 million. Although the funds will not have to be raised all at one time, it is certain that wholesale rates will need to continue to increase significantly as improvement projects are implemented. Staff recommends implementing a rate adjustment in 2003-04 to cover part of the wholesale rate increase and to continue to maintain an adequate fund balance as a cushion against future increases.

In addition to preparing an analysis to determine appropriate rates, staff also studied alternative rate tier structures. Presently, the City has a two-tier structure in which the first 20 units of water are charged at the lower rate, and all usage above 20 units is charged at the higher rate. About 32% of all bills issued in 2002 did not exceed 20 units.

Staff recommends that a three-tier increasing block structure be implemented in 2003-04, such that the first rate tier would be for water usage of 1 to 10 units, the second tier would apply to 10 to 30 units, and the third tier would be charged for water usage over 30 units. This proposed structure would reward water-conserving customers who use 10 or fewer units during a billing period. The City currently reduces the monthly sewer service charge for this level of usage, which if paired with a reduced water usage rate, would offer a good incentive to conserve water. Also, a higher number of customers could take advantage of lower tier rates. As noted earlier, about 32% of all bills issued 2002 did not exceed 20 units of water usage. In the same period, about 57% of the bills did not exceed 30 units of water. Thus, under the proposed rate structure, more customers would benefit from the lower tier than is presently the case. Staff recommends that the following rate structure be adopted:

- 1 – 10 units: \$1.95
- 11-30 units: \$2.12
- More than 30 units: \$2.45

The meter service charge of \$7.00 for a standard residential meter will remain the same. As is our normal practice, it is also recommended that this water rate increase become effective on October 1, 2003 so that Hayward residents are not impacted by a water rate increase at the time of year when water usage is highest.

Following is the rate structure proposed for October 1, 2003:

Bi-Monthly Water Consumption	WATER COST	
	Current Rate	Proposed Rate
0-20 CCF (0-250 gallons per day)	\$1.82	
Over 20 CCF	\$2.12	
0-10 CCF		\$1.95
11-30 CCF		\$2.12
Over 30 CCF		\$2.45
<hr/>		
Average water consumption charge for a single-family residence (20 CCF)	\$36.40	\$40.70
Meter service charge	<u>\$ 7.00</u>	<u>\$ 7.00</u>
Total bill for two months	\$43.40	\$47.70

Note: 1 CCF = 100 cubic feet = 748 gallons

As shown in the preceding table, the proposed 2003-04 water rates will increase bi-monthly water bills for a typical single-family customer from \$43.50 to \$47.70 based on an annualized average water usage of 20 CCF in a billing period. The increase per two-month billing period would average \$4.30, or 9.9% over the current average billing.

Based on a review of neighboring water agencies, which is summarized in Exhibits A and B, Hayward will continue to offer the highest quality water to its residential and business customers at reasonable prices. The recommended fee increases would also allow the City to maintain a working capital balance of about \$13 million in the Water Operating Fund at the end of 2004-05 to cushion ratepayers from much larger increases in future years.

#### Water Facilities Fees

In order to ensure that facilities fees are set at the appropriate level, prepared in a fair and equitable manner, and in keeping with current law, the City hired the firm of Hilton, Farnkopf, and Hobson (HFH) to prepare a new sewer and water connection rate study in 1999. HFH recommended as part of its study that facilities fees be reviewed at least every two years to revise costs as needed, add projects if appropriate, and review assumptions regarding project cost allocations to new development. In accordance with this recommendation, City staff utilized the computer model developed by HFH to update the calculations in 2001 and again in 2003.

In 2002, the City updated the Water Distribution System Master Plan, which generated recommendations for facility upgrades and improvements needed to accommodate projected development in the City. Therefore, a percentage of the project cost estimates for these projects have been incorporated into the connection fee calculations.

The updated study indicates that the water facilities fee for a standard residential connection needs to be increased to \$4,343 from \$3,342, a 30% increase. Likewise, water facilities fees for commercial and industrial connections would increase by the same percentage as residential fees, as shown on Exhibit D. For example, a business desiring to purchase a 2-inch water connection would see the same percentage increase as a residential unit. The increases in facilities fees are

due primarily to facility upgrades identified in the Master Plan update and better cost estimates for design and construction of improvements than were available in 2001. The projects included in the fee analysis will add system capacity to meet future demands and maximize existing storage capacity. New projects incorporated into the facilities fee calculation also include those recommended in the Capital Improvement Program to improve seismic reliability of the water system.

In order to give Council a means of comparing water connection fees in other jurisdictions, staff polled neighboring jurisdictions and tabulated their fees in Exhibit E. The proposed water facilities fee of \$4,343 falls into the low end of the range of water facilities fees collected by other agencies.

Staff recommends that the proposed facilities fee increases be implemented over the next two fiscal years. Thus, the first 15% increase to \$3,842 would be effective on October 1, 2003. This should allow most projects that are currently in the building permit process to obtain water connections at the existing rates. The second 15% increment, which would bring the fee to \$4,343, would be effective on October 1, 2004.

#### **CONCLUSION:**

The fee adjustments for 2003-04 are proposed to be included in the recommended Master Fee Schedule. In order to meet the revenue requirements of the Water Operating Fund and Capital Improvement Fund, and to maintain an adequate working capital reserve, staff recommends that the proposed rate and fee increases be implemented. These increases are needed to cover the cost of wholesale water purchases, to meet operating requirements, and to maintain the integrity of the Hayward Water System.

- Attachments:
- Exhibit A – Comparison of Local Agencies' Proposed 2003-04 Bi-Monthly Residential Water Bills
  - Exhibit B – Comparison of Local Agencies' Proposed 2003-04 Bi-Monthly Business Water Bills
  - Exhibit C – Water Fund Ending Working Capital Balances
  - Exhibit D – Existing and Proposed Water Facilities Fees
  - Exhibit E – Comparison of Local Agencies' Water Connection Fees

CITY OF HAYWARD  
2003-04 Proposed Water Rates  
Comparison of Bi-Monthly Residential Water Bills

Note: Comparison based on 20 ccf of water purchased in a two month billing period

Agency and Service Area	Volume Rates	Service Charge (5/8" Meter)	Total Bi-Monthly Billing	
Contra Costa Water District (Concord, Walnut Creek)	\$2.10/ccf	\$31.00	\$73.00	
Dublin San Ramon Services District	1-30 ccf: \$1.77/ccf >30 ccf: \$1.92	\$17.00	\$52.40	
City of Redwood City	1-10 ccf: \$0.88/ccf 11-25 ccf: \$1.75/ccf 11-50 ccf: \$2.00/ccf 11-75 ccf: \$2.25/ccf >75 ccf: \$2.50	\$21.60	\$47.90	(1)
City of Hayward (proposed)	1-10 ccf: \$1.95/ccf 11-30 ccf: \$2.12/ccf >30 ccf: \$2.45/ccf	\$7.00	\$47.70	
EBMUD (Castro Valley, San Lorenzo)	0-172 gpd: \$1.42/ccf 173-393 gpd: \$1.77/ccf >393 gpd: \$2.17/ccf	\$16.54	\$47.04	(1)
City of Daly City	0-6 ccf: n/c 7-10 ccf: \$2.34/ccf 11-14 ccf: \$2.40/ccf 15-20 ccf: \$2.45/ccf 21-50 ccf: \$2.50/ccf (+ add'l rates for higher use)	\$14.70	\$45.91	
Alameda County Water District (Fremont, Newark, Union City)	\$1.744/ccf	\$9.30	\$44.18	
City of Hayward (existing)	1-20 ccf: \$1.82/ccf >20 ccf: \$2.12/ccf	\$7.00	\$43.40	

(1) Water rate increase under consideration for 2003-04

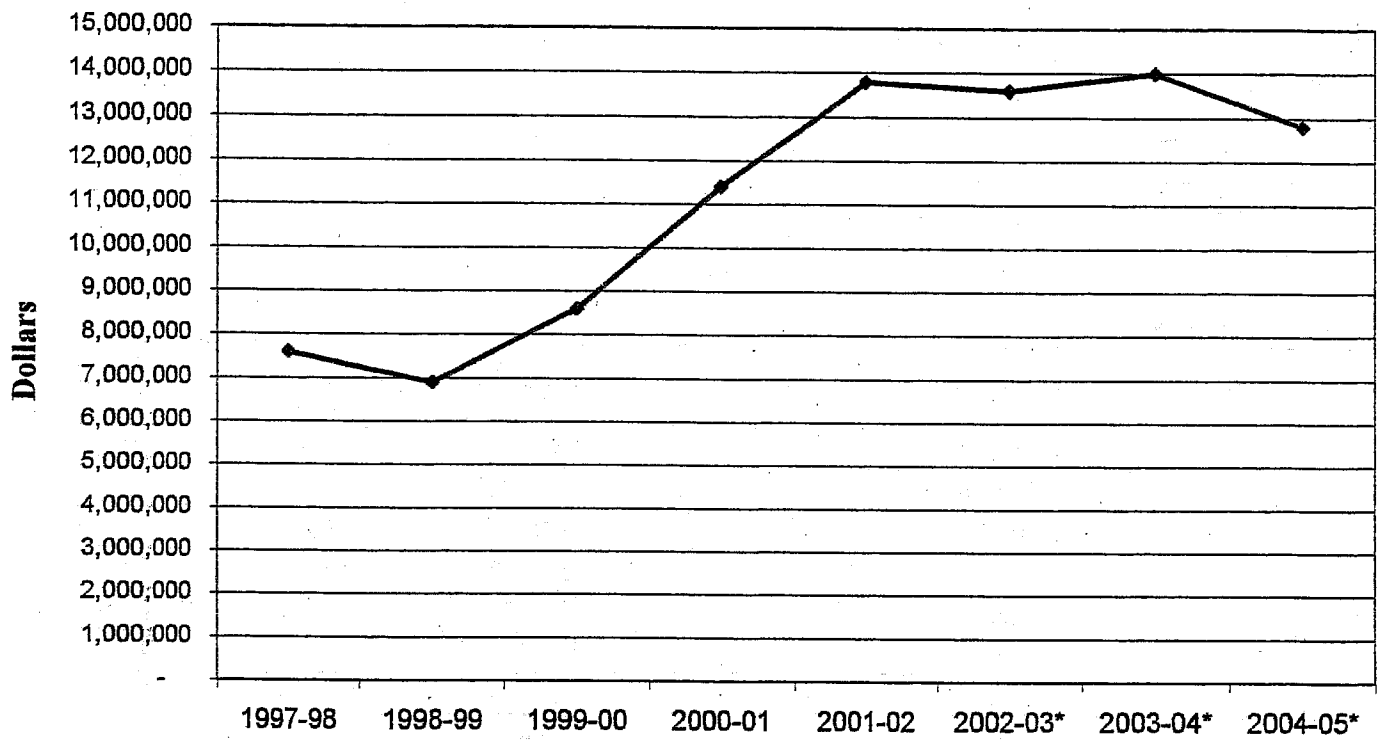
CITY OF HAYWARD  
2003-04 Proposed Water Rates  
Comparison of Bi-Monthly Business Water Bills

Note: Comparison based on 500 units of water purchased in a two month billing period

Agency and Service Area	Volume Rates	Service Charge (2" Meter)	Total Bi-Monthly Billing	
City of Daly City	1-200 ccf: Base rate of \$506.46 201 to 500 ccf: \$2.73/ccf	\$113.40	\$1,439	
Contra Costa Water District (Concord, Walnut Creek)	\$2.10/ccf	\$250.18	\$1,300	
City of Hayward (proposed)	1-10 ccf: \$1.95/ccf 11-30 ccf: \$2.12/ccf >30 ccf: \$2.45/ccf	\$55.50	\$1,269	
City of Hayward (existing)	1-20 ccf: \$1.82/ccf >20 ccf: \$2.12/ccf	\$55.50	\$1,109	
Dublin San Ramon Services District	1-30 ccf: \$1.77/ccf >30 ccf: \$1.92	\$136.00	\$1,092	
City of Redwood City	1-15 ccf: \$1.75 0-75 ccf: \$1.80 >75 ccf: \$1.80	\$172.80	\$1,073	(1)
EBMUD (Castro Valley, San Lorenzo)	\$1.97/ccf	\$65.42	\$1,050	(1)
Alameda County Water District (Fremont, Newark, Union City)	\$1.744/ccf	\$34.85	\$907	

(1) Water rate increase under consideration for 2003-04

# **WATER FUND** **ENDING WORKING CAPITAL BALANCES**



**Fiscal Years 1997-98 through 2004-05**

**\*Estimated Balance**

CITY OF HAYWARD  
EXISTING AND PROPOSED WATER FACILITIES FEES

	Existing	Proposed Oct. 1, 2003	Proposed Oct. 1, 2004
Residential units with standard service (5/8" meter) including single family dwelling or one family dwelling in a multiple dwelling, or each mobile home	\$3,342	\$3,842	\$4,343

Non-residential, each separate irrigation service, and residential units with meter size larger than 5/8"				
Meter Service Size:				
5/8 inch		\$3,342	\$3,842	\$4,343
3/4 inch		\$5,010	\$5,760	\$6,510
1 inch		\$8,360	\$9,610	\$10,860
1 1/2 inch		\$16,710	\$19,215	\$21,720
2 inch		\$26,740	\$30,740	\$34,740
3 inch		\$53,470	\$61,480	\$69,490
4 inch		\$83,550	\$96,065	\$108,580
6 inch		\$167,100	\$192,125	\$217,150
8 inch		\$267,360	\$307,400	\$347,440
10 inch		\$384,330	\$441,890	\$499,450



WATER FACILITIES FEES  
(For a 5/8-inch Connecton)

Comparisons with Nearby Agencies

<u>Agency and Service Area</u>	<u>Current Facilities Fee</u>
Contra Costa Water District (Walnut Creek, Concord)	\$13,340
Zone 7 Water Agency (Livermore - + local fee of \$2,869) Pleasanton - + local fee of \$1,200)	\$10,300
EDMUD - Region 5 (Castro Valley/Hayward Hill Area)	\$6,600 <sup>(1)</sup>
Dublin San Ramon Services District	\$5,200
Alameda County Water District	\$4,860
City of Hayward (proposed)	\$4,343
City of Hayward (existing)	\$3,342
EBMUD (Region 1) (San Lorenzo, San Leandro)	\$2,850 <sup>(1)</sup>

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(1) Water facilities fee increase is under consideration for 2003-04



**CITY OF HAYWARD  
DEPARTMENT OF PUBLIC WORKS**

**May 7, 2003**

**TO: CITY MANAGER**

**FROM: DIRECTOR OF PUBLIC WORKS** *MB*

**SUBJECT: PROPOSED 2003-04 SEWER RATES AND FEES**

**BACKGROUND:**

Each year staff evaluates sewer service revenues and expenditures and prepares a sewer revenue program. Sewer service charges cover the costs of providing sewage collection and treatment services, including maintenance and replacement of worn equipment. The existing single-family rate, which became effective on October 1, 2001, is \$14.74 per month.

Sewer capacity fees are one-time fees paid by those wishing to connect a new facility to the public sewer system or to increase the volume and/or waste strength of wastewater from an existing facility. The purpose of the capacity fee is to: 1) defray the expenses paid for by the current customers over the years for development and improvement of the system to date, which makes it possible for new development to connect to the existing system; and 2) pay for the incremental cost of the future expansions and improvements that may be necessary to accommodate new development and future growth. Capacity fees ensure that adequate funding is available for necessary improvements without shifting the burden of paying for system expansion to existing rate payers and without the risk that system improvements will fall short of the needs to accommodate future growth. The fee is typically charged at the time that sewer connections are approved for new residential, commercial and industrial developments or when a current user desires to increase the strength and/or volume of wastewater discharge into the public sewer system. The current sewer capacity fee is \$3,391 per dwelling unit.

**DISCUSSION:**

Sewer Service Charges

The cost-of-service analysis indicates that an increase in sewer service rates is necessary in 2003-04 in order to cover normal inflationary increases and to address critical upgrades at the WPCF, as discussed later in this report. The proposed rate increase will enable the Sewer Operating Fund to meet these obligations and to maintain an adequate working capital balance, which is essential to smooth out cash flows over time, provide funding for unforeseen emergencies, and to alleviate fluctuations in rate changes from year to year.

Because both the City's sewer collection and treatment facilities are aging, attention must be given to upgrading, replacing, and maintaining facilities. Staff is proposing to continue transfers of \$1,000,000 and \$2,000,000 annually to the Sewer Collection System Replacement Fund and Water Pollution Control Facility Replacement Fund respectively to pay for sewer line replacements and lift station maintenance, and WPCF maintenance and replacement. This work

has direct benefit to existing customers, and it is appropriate that the costs of these projects be funded by sewer service charges.

In addition to normal maintenance and replacement work, the City is implementing critical projects at the WPCF that will improve the efficiency, reliability and redundancy of the treatment process, both for existing demand and future development. Certain processes must be improved in order to meet current and future discharge requirements. Because the projects will benefit both existing users and new development, some of the costs, which are expected to total about \$33,000,000, will need to be borne by existing ratepayers.

The WPCF improvements will be funded through long-term debt. The City is pursuing a local match loan in the amount of \$33,000,000 from the State Water Resources Control Board Wastewater Revolving Loan Fund, which offers the most favorable interest rates for qualified projects. If the loan is approved, annual payments of around \$825,000 will be paid from the Wastewater Operating Fund for 20 years (with the remainder of the annual payment coming from the Sewer Capital Improvement Fund). Although payments would not begin until at least 2005-06, staff is proposing that a reserve for future debt be included in proposed 2003-04 rates so that ratepayers will be not burdened with a sudden large increase in two years.

The State requires that loan recipients demonstrate that sufficient funds are available to meet ongoing costs of operations, maintenance, replacement, and debt service. Further, the City must implement a sewer service fee structure that ensures equitable distribution of costs among all users in proportion to the demands on the sewer system. Actually, this has been the City's practice for a number of years, as it was the recipient of federal and state grant funding in the early 1980s. As in previous years, staff has developed a detailed sewer revenue program for 2003-04 to determine the rates necessary to cover the costs associated with providing sewer collection and treatment service to residents and businesses.

An 11.9% increase in residential sewer service charges is proposed, which would amount to monthly increases of: \$1.75 for single-family homes, duplexes, triplexes, and fourplexes; \$1.56 for multi-family units; and \$1.23 for mobile home units. The Economy and Lifeline monthly rates would increase by about 9%, or \$0.85 and \$0.42 respectively. These lower rates are available to all customers who utilize 10 or fewer units of water (for economy rate) and 5 or fewer units (for lifeline rate) in a billing period. For commercial and industrial dischargers, the flow component of the rate would increase by 9.9% percent. The cost of treating biochemical oxygen demand (BOD) and suspended solids (SS) would go up by 16.13% and 6.83% respectively. Estimated increases for current industrial users of the sanitary sewer system would be up to 15% depending upon the estimated flow, BOD and SS for each industry, with average increases in the 11% range.

It is recommended that these sewer service charge increases become effective on October 1, 2003 to coincide with proposed water rate increases.

The following table summarizes the proposed residential sewer service charge increases:

Service	Existing Monthly Sewer Service Charge	Proposed Monthly Sewer Service Charge (Effective October 1, 2003)
Single-Family Home	\$14.74	\$16.49
Duplex, Triplex, Fourplex	\$14.74	\$16.49
Multi-Family Unit	\$13.11	\$14.67
Mobile Home	\$10.31	\$11.54
Economy Rate (10 CCF per billing period)*	\$9.29	\$10.14
Lifeline Rate (5 CCF per billing period)*	\$4.65	\$5.07

\* One CCF is the equivalent of 748 gallons

Commercial and industrial customers are charged for sewer service based on the volume and strength of their discharge. The following table shows the parameters used in calculating sewer service charges for these dischargers, and the existing and proposed cost per unit:

Parameter/Unit	Existing	Proposed (Effective October 1, 2003)
Flow – Cost per 100 cubic feet (CCF)	\$1.11361	\$1.22428
Biochemical Oxygen Demand – Cost per pound	\$0.35652	\$0.41402
Suspended Solids – Cost per pound	\$0.49233	\$0.52597

The proposed fee increases would allow the City to maintain a working capital balance of about \$9.6 million in the Sewer Operating Fund at the end of 2004-05.

Based on a survey of neighboring sewer agencies, the Hayward sewer system will continue to offer very good service to its customers at competitive rates. As demonstrated in Exhibit B, Hayward charges are still lower than many other agencies. It is important to note that some districts have a slight advantage over Hayward because they receive property tax revenue and may also utilize refuse collection franchise fees that they receive from refuse service providers. Also, many agencies do not offer lower rates for multi-family units or for low water usage (economy and lifeline).

#### Sewer Capacity Fees

In order to ensure that sewer capacity fees are set at the appropriate level, prepared in a fair and equitable manner, and are in keeping with current law, the City hired the firm of Hilton, Farnkopf, and Hobson (HFH) in January 1999 to prepare a new sewer and water connection rate study. HFH recommended as part of its study that sewer capacity fees be reviewed at least every two years to revise costs as needed, add projects if appropriate, and review assumptions regarding project cost allocations to new development. In accordance with this recommendation, City staff utilized the computer model developed by HFH to update the calculations in 2001 and again in 2003.

As discussed in the sewer service charge section of this report, critical projects are being implemented at the WPCF to improve the efficiency, reliability and redundancy of the treatment process, both for existing demand and future development. New collection system projects that enhance the system's capacity have also been included in the Capital Improvement

Program. Since the improvements will benefit new development to varying degrees, it is appropriate that a percentage of the estimates projects costs be allocated to new and expanding users of the system. The updated study incorporates revised costs for WPCF improvement projects and newly identified collection system projects that will increase capacity. The analysis indicates that increased sewer capacity fees will need to be implemented.

The total sewer capacity charge for a single-family residence in Hayward is now \$3,391. The proposed capacity fee of \$4,400 represents a 30% overall increase over the existing total capacity fee. Capacity fees for commercial and industrial development would be calculated individually, because of variation in wastewater components, i.e., flow, biochemical oxygen demand, and suspended solids among different types of businesses. The cost of handling and treating these various parameters differ, and thus capacity fees are also different for different types of businesses. For example, a business with a high flow and a low biochemical oxygen demand (BOD) in its discharge would see a higher capacity fee percentage increase than a business with low flow but high BOD. This is because future facilities needed for treating hydraulic flow will cost more than the facilities for BOD. This formula is consistent with the premise that users pay for capacity in direct relationship to the demand they will place on the collection and treatment systems. Industrial and commercial sewer capacity fee percentage increases would range from the low 20s to the low 30s.

Notwithstanding the fact the proposed capacity fees would compare favorably with those in other jurisdictions, staff recognizes that these fees could pose a financial challenge for some businesses. Therefore in order to ease the impact for business and commercial customers, commercial and industrial users are generally given the option of paying the sewer capacity over a period of up to three years. This allows new and expanding companies to spread the cost of purchasing sewer capacity over a longer period. Sewer capacity fees for large residential developments are usually spread over a period of time as a practice because fees are paid as connections are made to the public sewer, rather than all at one time, so there is no need to provide a three-year payment option for this type of development.

Staff recommends that the proposed sewer capacity fee increases be implemented over the next two fiscal years. Thus, the first 15% increase to \$3,896 would be effective on October 1, 2003. This should allow most projects that are currently in the building permit process to obtain sewer connections at the existing rates. The second 15% increment, which would bring the fee to \$4,400 would be effective on October 1, 2004.

In order to give Council a means of comparing sewer capacity fees in other jurisdictions, staff has polled neighboring jurisdictions and tabulated sewer capacity fees for single-family residential properties in Exhibit C. The proposed sewer capacity fee of \$4,400 places the total cost of connecting a single-family residential property to the Hayward public sewer system near the low end of the range of sewer capacity fees collected by other agencies. As with all rate comparisons prepared at this time of year, it should be kept in mind that most of the information from other agencies is based on current year rates, and that many of these agencies will be increasing rates in the next fiscal year.

The following table summarizes the existing sewer and proposed capacity fees for residential connections:

Unit Type	Existing Sewer Capacity Fee	Proposed Sewer Capacity Fee (Eff. 10-1-03)	Proposed Sewer Capacity Fee (Eff. 10-1-04)
Single-Family Unit	\$3,391	\$3,896	\$4,400
Duplex, Triplex, Fourplex (each residential living unit)	\$3,391	\$3,896	\$4,400
High Density Residential, Mobile Home (each residential living unit)	\$3,018	\$3,468	\$3,917

The next table summarizes existing sewer capacity fees and proposed surcharges for commercial, industrial and institutional development:

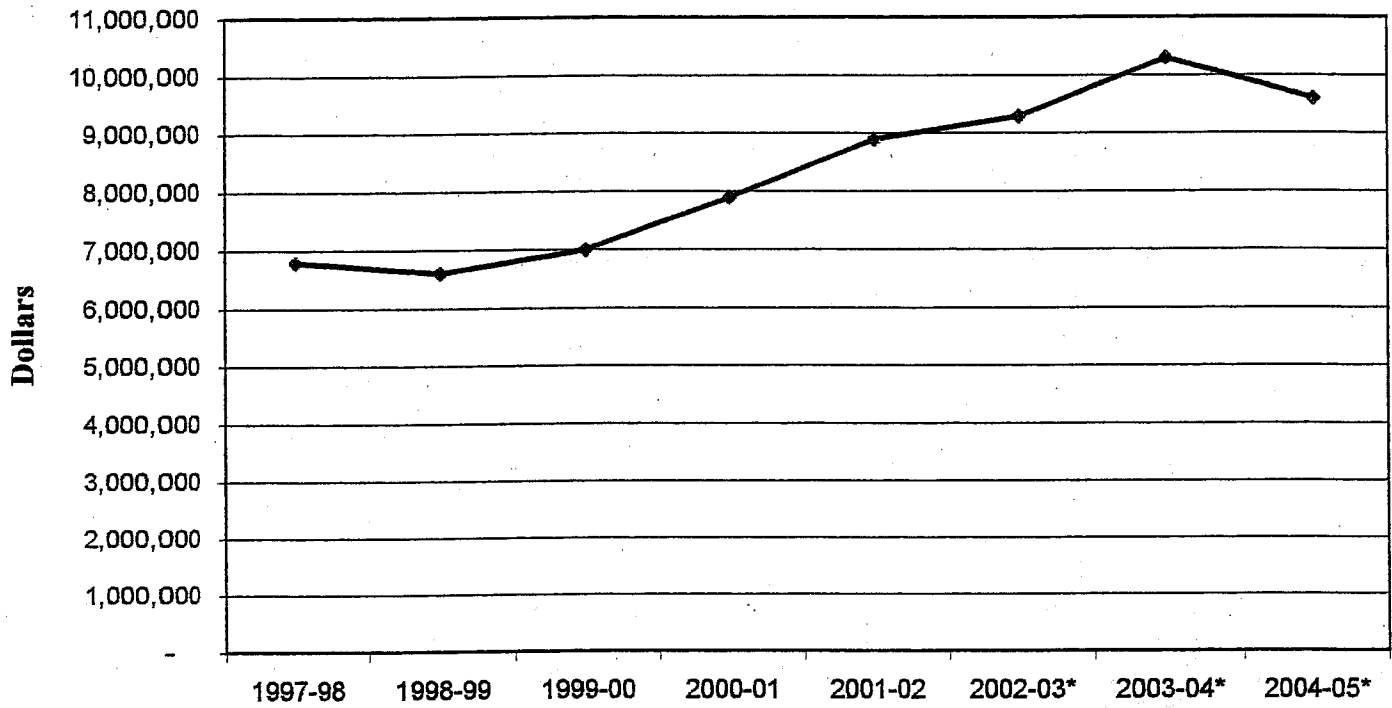
Parameter	Existing Sewer Capacity Fee	Proposed Sewer Capacity Fee (Eff. 10-1-03)	Proposed Sewer Capacity Fee (Eff. 10-1-04)
Flow (per gallon of daily discharge)	\$9.524	\$11.229	\$12.934
Biochemical Oxygen Demand (per pound per year)	\$6.643	\$7.326	\$8.008
Suspended Solids (per pound per year)	\$4.857	\$5.445	\$6.032

## CONCLUSION:

The fee adjustments for 2003-04 are proposed to be included in the recommended Master Fee Schedule. In order to meet the revenue requirements of the Sewer Operating Fund and Sewer Capital Improvement Fund, maintain an adequate working capital reserve, and maintain the integrity of the Hayward Sewer System, staff recommends that the proposed rate increases and sewer capacity surcharges be implemented.

Attachments: Exhibit A – Sewer Fund Working Capital Ending Balances  
Exhibit B – Comparison of Local Agencies' Proposed 2003-04 Monthly Sewer Bills  
Exhibit C – Comparison of Local Agencies' 2003-04 Residential Sewer Capacity Fees

**WASTEWATER FUND  
ENDING WORKING CAPITAL BALANCES**



Fiscal Years 1997-98 through 2004-05

\*Estimated Balance

CITY OF HAYWARD  
2003-04 Proposed Sewer Rates  
Comparisons with Nearby Agencies

Note: Comparisons based on single-family residential rate

<u>Agency and Service Area</u>	<u>Monthly Sewer Service Charge</u>
City of Livermore	\$36.60
Dublin San Ramon Services District	\$27.25
Central Contra Costa Sanitary District	\$22.66 <sup>(1)</sup>
City of Oakland (City charge plus EBMUD rate)	\$22.54 <sup>(2)</sup>
City of San Leandro	\$17.90 <sup>(2)</sup>
City of Hayward (proposed)	\$16.49
Union Sanitary District (Fremont, Union City, Newark)	\$15.66 <sup>(2)</sup>
City of Hayward (existing)	\$14.74
Castro Valley Sanitary District	\$12.65
Oro Loma Sanitary District (San Lorenzo)	\$9.42 <sup>(2)</sup>

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(1) Sewer rate is proposed for 2003-04 but has not yet been approved by District Board

(2) Sewer service charge increase is under consideration for 2003-04



CITY OF HAYWARD  
Proposed Sewer Capacity Fees for Single-Family Residential Dwelling Unit

Comparisons with Nearby Agencies

<u>Agency and Service Area</u>	<u>Current Capacity Fee</u>
Dublin San Ramon Services District	\$9,900
City of Livermore	\$9,626
Castro Valley Sanitary District	\$8,500
City of Hayward (proposed)	\$4,400
Central Contra Costa Sanitary District (Walnut Creek, Concord)	\$4,000 (1)
Oro Loma Sanitary District (San Lorenzo)	\$3,890 (1)
City of Hayward (existing)	\$3,391
Union Sanitary District (Fremont, Union City, Newark)	\$2,710 (1)
City of San Leandro	\$1,100 (1)

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(1) Sewer capacity fee increase is under consideration for 2003-04